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DATE: 25 November 1957

MEMORANDUM FOR: Deputy Director/Intelligence

THROUGH: Assistant Director, Research and Reports

SUBJECT: Highlights of U.S./Polish Talks (Fourth meeting, November 1957).

1. During discussions of the U.S. and Polish delegations at the last full meeting and at the meetings of joint working groups on different aspects of the Polish request for a U.S. loan the Polish delegation presented additional information in support of its request and submitted written and oral answers to various questions. Most of the questions pertained to Polish balance of payments prospects.

2. According to the Polish delegation, Poland's balance of payments problem is very serious. The anticipated current account deficit for 1957 is \$252 million, about 18 percent of total imports of goods and services. \$218 million of this deficit is being covered by long-term credits from the USSR, East-Germany, and Czechoslovakia, and by part of the previous U.S. credit. Poland has also gone into debt on a short-term basis in order to finance the remaining current account deficit and, in addition, a flight of short-term capital.

3. Poland's trade with Western Europe is progressing very unsatisfactorily because of a drop in sales of Polish coal and a sharp decline in European coal prices from the high 1956 levels. As a result, the share of Western countries in total Polish exports will rise only slightly to not more than 46 percent, compared to a planned 51 percent. Another source of difficulties in Poland's trade relations with the West is the continued extremely low level of Polish hard currency reserves. Because of low reserves, Polish imports and exports could often not be timed to take advantage of favorable seasonal swings in the world market.

4. The principal causes of present balance of payments difficulties are the very large decline in coal exports (because of reduced production, larger allocations to households for heating, and lags in electric power production), and the import demands of Gomulka's consumer goods and agricultural programs. Continuation of these programs and elimination of compulsory deliveries of agricultural products will again raise import requirements in 1958, and expected increases in exports will not suffice to balance Poland's foreign

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accounts during that year. Balance of payments equilibrium is "officially anticipated" for 1960 the last year of the current 5 year plan, but exports of machinery, on which great hopes are placed as means of achieving this goal, are lagging behind plan and this lag is expected to continue in future years.

5. Answers to questions concerning the means by which Poland expects to eventually achieve balance of payments equilibrium were vague. According to the Polish delegation, exports of coal, processed foods, certain basic chemicals, and simple machinery items, (requiring a large amount of labor in their production or their use) present the best opportunities for future expansion.

6. Further details on these questions and tables on the Polish balance of payments during 1956 (actual) and 1957 (expected) on supply and use balances for a number of agricultural products requested under P.L. 480, and on U.S. Estimates of the dollar cost of requested items are being distributed.

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European Satellites Branch
Analysis Division

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